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SUBJECT: DTI MINISTER ON BEE

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1. (SBU) SUMMARY. Minister of Trade and Industry Mandisi Mpahlwa reviewed the economic and social rationale for BEE and said that empowerment would contribute to economic growth during a September 30 breakfast briefing. Mpahlwa said that Codes of Good Practice regulating rating agencies were imminent and that he was creating a new list of proposed candidates for the BEE Advisory Council. The Department of Trade and Industry (DTI) is updating the Preferential Procurement Act and regulations to place more emphasis on the achievement of social (BEE) goals. Mpahlwa recognized the contribution of U.S. business in the 1970s and 1980s to the development of black professionals through implementation of the Sullivan Principles. END SUMMARY.

2. (U) In a September 30 breakfast briefing at the American Chamber of Commerce in South Africa (AmCham), the Department of Trade and Industry (DTI) Minister Mandisi Mpahlwa spoke about Black Economic Empowerment (BEE). DTI is the lead government agency on BEE policy and is statutorily responsible for providing the government's seal of approval to industry charters.

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MINISTER REVIEWS BEE RATIONALE  
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3. (U) Mpahlwa pointed to the historical denial of economic opportunity and "systematic oppression" of South Africa's previous landless black majority as the economic and social rationale for BEE. The Minister said that despite significant progress over the past ten years in establishing a strong macro-economic policy and legislative framework to combat the legacy of apartheid, a lack of access to finance through much of the 1990s stifled development of black business.

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BEE WILL GENERATE GROWTH  
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4. (SBU) Mpahlwa said that BEE was part of South Africa's growth strategy and added that economic expansion will sustain the implementation of BEE. Mpahlwa said that industry empowerment charters and scorecards promote a general approach to empowerment that is broad-based. He acknowledged the corporate process that prevents local representatives of foreign firms from making key decisions and said that multinational companies should be recognized for their work in other BEE criteria if the local entity cannot sell equity. Mpahlwa pointed to the Financial Services Charter as an example of this. (COMMENT: The Minister's comment in this regard provides hope for the Information and Communication Technology (ICT) sector where the current version of the Charter indirectly penalizes firms exempted from the sale of equity. END COMMENT).

5. (U) Mpahlwa told the audience that members of the Presidential International Advisory Council (PIAC) raised concerns about the ICT Charter process in a recent meeting with President Mbeki. Mpahlwa said that the President promised to look "seriously" at the issues causing concern to business, which includes ICT Charter provisions on the sale and scoring of equity.

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CODES OF GOOD PRACTICE  
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6. (SBU) Responding to a question on accrediting agencies, DTI Deputy Director-General Lionel October said that the Government is concerned with the proliferation of rating agencies and the high fees they charge to measure company compliance with the sector scorecard. October said that the Government does not think these high costs are appropriate and that DTI is looking at an accreditation system and evaluating a fee structure. (NOTE: DTI's Codes of Good

Practice will address these issues. Local business companies expected the Codes to be released this summer, but the Minister said he had not yet reviewed them. He said he was scheduled to review them on October 3. END NOTE).

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BEE ADVISORY COUNCIL  
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17. (SBU) Mpahlwa discussed the status of the National BEE Advisory Council, which has yet to be formed. He said that he was busy compiling a new list of proposed candidates for the Advisory Council. Another DTI official had previously told Econoff that Mbeki refused the first list of candidates because it was dominated by the BEE "elite," politically connected businesspeople who have won a majority of the empowerment deals. The official said that Mbeki had called for greater representation from the provinces and industry.

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PREFERENTIAL PROCUREMENT ACT AND BEE  
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18. (SBU) Mpahlwa said that the DTI is in the process of updating the Preferential Procurement Policy Framework Act of 2000 to bring it more in line with BEE objectives. The Preferential Procurement Act and its regulations govern the tender process for state-owned entities. Currently, a bid for a government tender valued at over R500,000 (about \$77,000) is judged 90 percent on its price and just 10 percent for the bidding company's achievement of specified social development goals (e.g., (sub)contracting with historically disadvantaged individuals (HDI), promoting South African enterprises, promoting exports to create jobs, promoting Small Micro and Medium Enterprises (SMMEs), developing human resources and skills, uplifting communities, etc.). Bids for government tenders valued at less than R500,000 are judged 80 percent on price and 20 percent on achievement of social goals. A DTI official involved in the process told Econoff that the 90/10, 80/20 gaps would be reduced, placing a stronger emphasis on a bidder's achievement of BEE objectives. He said that a review of the Preferential Procurement regulations is currently underway, which will be followed by an amendment to the Preferential Procurement Act.

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KUDOS TO U.S. FIRMS  
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19. (U) The Minister concluded his remarks by thanking American companies for providing economic opportunities to black professionals in the 1970s and 1980s through their implementation of the Sullivan Principles. He specifically singled out IBM and SA Breweries for their contributions during that time.

FRAZER